

Dashboard / My courses / (22/04) MScFE 560 Financial Markets (C22-S2) / Module 6: Futures, Options and Derivatives
/ Practice Quiz M6 (Ungraded)

Started on Friday, 27 May 2022, 5:44 PM

State Finished

Completed on Friday, 27 May 2022, 5:46 PM

Time taken 2 mins 5 secs

Question 1

Complete

Not graded

Consider the following statements:

- **Statement A:** A call option is a variation of a long forward contract.
- **Statement B:** The underlying asset of a put option has a negative exposure to the market.

Which of the statements given above is correct?

Select one:

- ☐ Only statement B
- ☐ Both statement A and B
- ☐ Neither statement A nor B
- ☒ Only statement A

Your answer is correct.

Question 2

Complete

Not graded

Consider the following statements:

- **Statement A:** A speculative position is a position that lowers your overall market risk.
- **Statement B:** Derivatives always carry market risk.

Which of the statements given above is correct?

Select one:

- ☐ Both statement A and B
- ☐ Neither statement A nor B
- ☐ Only statement A
- ☒ Only statement B

Your answer is correct.

Question 3

Complete

Not graded

What does the law of one price state?

Select one:

- ☒ A position must have the same price as its replicating portfolio.
- ☐ A position behaves in the same way as its replicating portfolio.
- ☐ A replicating portfolio can always be found.
- ☐ Arbitrages can be created in inefficient markets.

Your answer is correct.

Question 4

Complete

Not graded

Consider the following statements:

- **Statement A:** Exchange-traded derivatives are more customizable than over-the-counter derivatives.
- **Statement B:** Larger entities tend to have lower credit risk.

Which of the statements given above is correct?

Select one:

- ☒ Only statement B
- ☐ Only statement A
- ☐ Both statement A and B
- ☐ Neither statement A nor B

Your answer is correct.

Question 5

Complete

Not graded

Consider the following statements:

- **Statement A:** Having entered a long forward contract, you want the value of the underlying asset at maturity to increase.
- **Statement B:** A financial instrument is a contract based on another underlying asset.

Which of the statements given above is correct?

Select one:

- ☒ Both statement A and B
- ☐ Neither statement A nor B
- ☐ Only statement A
- ☐ Only statement B

Your answer is incorrect.

◀ NOTES 4 M6

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Started on Friday, 27 May 2022, 5:47 PM

State Finished

Completed on Friday, 27 May 2022, 5:56 PM

Time taken 9 mins 6 secs

Question 1

Complete

Not graded

If the volatility of a non-dividend-paying stock is 20% per annum and a risk-free rate is 5% per annum, which of the following is closest to the parameter p for a tree with a three-month time step?

Select one:

- ☐ 0.50
☐ 0.54
☒ 0.58
☐ 0.62

Your answer is incorrect.

Question 2

Complete

Not graded

Consider the following statements:

- **Statement A:** Forward contracts can be physically settled or cash settled.
- **Statement B:** The value of a forward contract is known as the delivery price.

Which of the statements given above is correct?

Select one:

- ☐ Only statement B
☐ Both statement A and B
☐ Neither statement A nor B
☒ Only statement A

Your answer is correct.

Question 3

Complete

Not graded

When the Black-Scholes-Merton and binomial tree models are used to value an option on a non-dividend-paying stock, which of the following is true?

Select one:

- ☒ The binomial tree price converges to the Black-Scholes-Merton price as the number of time steps is increased
- ☐ Either A or B can be true
- ☐ The binomial tree price converges to a price slightly below the Black-Scholes-Merton price as the number of time steps is increased
- ☐ The binomial tree price converges to a price slightly above the Black-Scholes-Merton price as the number of time steps is increased

Your answer is correct.

Question 4

Complete

Not graded

Consider the following statements:

- **Statement A:** Equity derivatives trade in the equity markets.
- **Statement B:** The short party to a forward contract has to allow the long party to choose the delivery date.

Which of the statements given above is correct?

Select one:

- ☐ Both statement A and B
- ☒ Neither statement A nor B
- ☐ Only statement A
- ☐ Only statement B

Your answer is correct.

Question 5

Complete

Not graded

Consider the following statements:

- **Statement A:** A speculative position is a position that lowers your overall market risk.
- **Statement B:** Over-the-counter derivatives can often involve credit risk.

Which of the statements given above is correct?

Select one:

- ☐ Neither statement A nor B
- ☐ Both statement A and B
- ☐ Only statement A
- ☒ Only statement B

Your answer is correct.

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Started on Friday, 27 May 2022, 5:56 PM

State Finished

Completed on Friday, 27 May 2022, 5:58 PM

Time taken 2 mins

Question 1

Complete

Not graded

Consider the following statements:

- **Statement A:** If two portfolios have the same behavior, the market can create an arbitrage.
- **Statement B:** If the delivery price becomes larger, the short party becomes more concerned about the default risk of the forward contract.

Which of the statements given above is correct?

Select one:

- ☐ Both statement A and B
- ☐ Neither statement A nor B
- ☒ Only statement B
- ☐ Only statement A

Your answer is correct.

Question 2

Complete

Not graded

Which of the following positions are best suited to "hedging the downside, but keeping the upside"?

Select one:

- ☐ a forward
- ☐ a short holding in the underlying asset
- ☒ an option
- ☐ a holding in the underlying asset

Your answer is correct.



Question 3

Complete

Not graded

Consider the following statements:

- **Statement A:** Derivatives are primarily used for hedging and speculation.
- **Statement B:** Someone needing to trade an asset in the future is exposed to market risk.

Which of the statements given above is correct?

Select one:

- ☐ Only statement A
- ☐ Neither statement A nor B
- ☒ Both statement A and B
- ☐ Only statement B

Your answer is correct.

Question 4

Complete

Not graded

Consider the following statements:

- **Statement A:** The short party to an option can be referred to as the seller of the option.
- **Statement B:** Forward contracts are better than corresponding futures contracts.

Which of the statements given above is correct?

Select one:

- ☒ Only statement A
- ☐ Neither statement A nor B
- ☐ Both statement A and B
- ☐ Only statement B

Your answer is correct.



Question 5

Complete

Not graded

Consider the following statements:

- **Statement A:** Speculating requires you to carry market risk.
- **Statement B:** One can usually sell or exit an exchange-traded derivative position by closing it out.

Which of the statements given above is correct?

Select one:

- ☐ Only statement B
- ☐ Both statement A and B
- ☐ Neither statement A nor B
- ☒ Only statement A

